

SUPERVISOR'S USE ONLY

91174



Level 2 Accounting, 2017

91174 Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems

9.30 a.m. Thursday 23 November 2017 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems.	Demonstrate in-depth understanding of accounting concepts for an entity that operates accounting subsystems.	Demonstrate comprehensive understanding of accounting concepts for an entity that operates accounting subsystems.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–15 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

QUESTION ONE





Holly is the owner of *Native Taupo*. The business grows wild New Zealand herbs organically on her property in Taupo. She sells these herbs to local restaurants who use them in unique New Zealand meals for tourists.

- (a) Justify the importance of the **entity** concept in the preparation of *Native Taupo*'s Income Statement. In your answer:
 - describe the purpose of Native Taupo's Income Statement for the year ended 31 March 2016
 - explain how the entity concept will be applied in the preparation of Native Taupo's Income Statement for the year ended 31 March 2016

•	explain how the use of the entity concept in <i>Native Taupo</i> 's Income Statement will make it easier for Holly to determine how successful the business has been in earning profit.

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On 1 April 2016 Holly expanded the business by offering quad bike tours through parts of her property. To finance the purchase of the quad bikes, *Native Taupo* took out a five-year business loan.

- (b) Justify why *Native Taupo* reports the loan as a non-current liability in the Statement of Financial Position. In your answer, explain:
 - using the **definition** of a **liability**, why the loan is reported as a liability
 - why the loan is reported as non-current

now reporting the loan as a non-current liability demonstrates the going concern concept.

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QUESTION TWO



Trial Bala	Native nce (extract)	<i>Taupo</i>) as at 31 March 2017	,
	\$		\$
Advertising	2900		

Additional information:

• \$600 of advertising, excluding GST, has been paid in advance by *Native Taupo*.

Use the trial balance extract and additional information above to answer (a).

in adva	the accrual basis , justify how and why the \$600 of advertising, excluding GST rance, was reported in both the Income Statement and Statement of Financial Positive Taupo for the year ended 31 March 2017.	osi

Holly depreciates the quad bikes using the units-of-use depreciation method.

Native Taupo Note: Property, plant and equipment (extract) as at 31 March 2017		
	Quad bikes \$	
Cost	35 000	
Less: accumulated depreciation	7200	
Carrying amount	27800	

- (b) Justify the reporting of the quad bikes **and** their depreciation in the financial statements of *Native Taupo*. In your answer:
 - describe the units-of-use method of depreciation
 - explain why this method of depreciation is being used for the quad bikes

•	explain how the qualitative characteristic of relevance is applied to the reporting of the quad bikes at carrying amount in <i>Native Taupo</i> 's Property, Plant and Equipment Note above.

THERE IS MORE SPACE FOR YOUR ANSWER ON PAGE 8 >>

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QUESTION THREE

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The main source of income for *Native Taupo* prior to 1 April 2016 was selling wild herbs to local restaurants in Taupo.

Native Taupo Income Statement (extract) for the periods ended 31 March					
	2016	2017			
	\$	\$			
Revenue					
Wild herb sales	60 000	70 000			
Other income					
Quad bike tour fees	0	12500			
Total income					

All wild herb sales for Native Taupo were on credit.

- (a) Justify why *Native Taupo* will report the wild herb sales on credit of \$70 000 for the year ended 31 March 2017 as **income**. In your answer, explain:
 - using the **definition** of **income**, why the wild herb sales on credit are income

•	the probable aspect of the recognition criteria of income as it relates to wild herb sales on credit .

THERE IS MORE SPACE FOR YOUR ANSWER ON PAGE 10 >>

explain, using materiality, why Holly reported the income from quad bike tours separately from the main income, wild herb sales	,	describe the qualitative characteristic of materiality
separately from the main income, wild herb sales		
		separately from the main income, wild herb sales
	,	
		explain flow this will assist flony in lattice decision-making.

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Acknowledgements

Images from the following sources have been used in this examination.

Page	Source
2	http://www.mnn.com/lifestyle/responsible-living/stories/4-training-courses-for-young-farmers
4	http://pertiwiquadadventure.com/gallery.html
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